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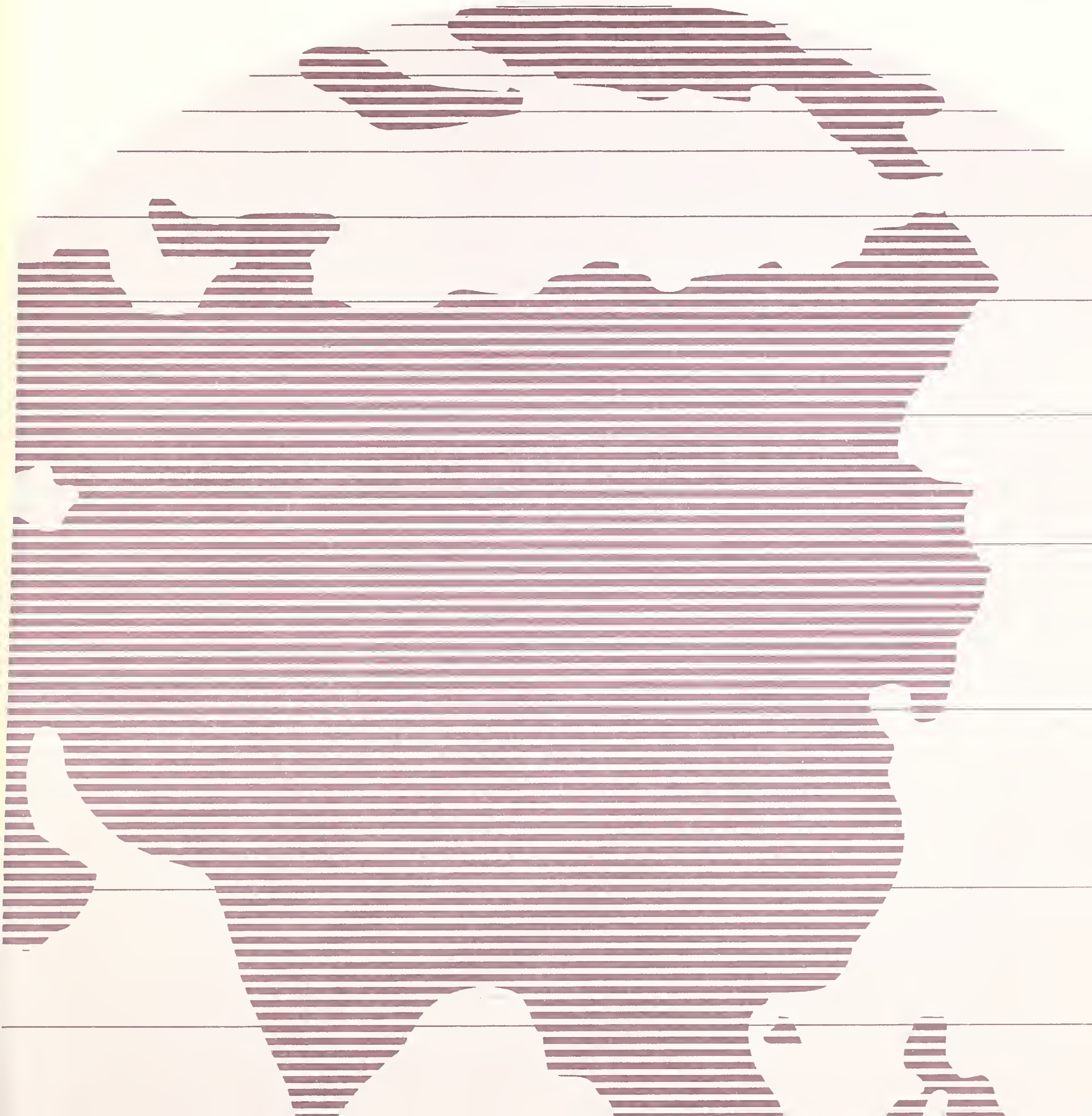
Marketing High-Value Food Products in the Asian Pacific



Abstract

MARKETING HIGH-VALUE FOOD PRODUCTS IN THE ASIAN PACIFIC

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This report examines export marketing of branded and nonperishable food products to selected Asian Pacific markets. Economic growth in this region is continuing to increase consumer purchasing power and influencing consumer preference for convenience foods that are widely distributed and promoted. Distribution of imported nonperishable foods in most Asian Pacific countries is handled by agents for exporting firms. Most cooperatives, rely on such agents rather than establishing foreign subsidiaries or overseas sales offices. Marketing performance of agents is influenced by many factors, particularly the nature and conditions of the retail food industry. Performance is also affected by the working relationship that agents establish with the exporters they represent. Strategies to improve these working relationships are examined in this report.

Key Words: Cooperatives, high value products, exporting, agents, distributors, food retailing, Asian Pacific, and Far East Asia.

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Preface

This report provides an overview of how exports of different food products from the United States are marketed in several Asian Pacific countries. The first part of this report examines general conditions that influence exports of high value products: economic growth, trade policies, consumer behavior, and forms of retail food distribution. The latter part of the report contains more of the information that was gathered from visiting import agents and supermarket managers in the eight countries that were studied in 1987. Viewpoints of agents and observations about their operations are used to describe the nature of their working relationships with U.S. exporters.

Preliminary planning of this research involved surveying U.S. cooperative exporters of high-value products concerning (1) countries in the Asian Pacific (China was excluded in this survey), (2) products, and (3) types of business arrangements for exporting that were of most interest to them. Questions about products were designed to develop some common categories of high-value products to examine. These were narrowed down to fruit juices, tree nuts, and dried and canned fruits. As expected, there was more agreement on the countries to study than there was on the form of business organization for exporting, such as sales agent arrangements, joint ventures, or establishing overseas sales offices. The focus on sales agents in this report was influenced by the greater availability of information on this topic in the countries visited and by the fact that agent representation is the predominant method that cooperatives use for exporting branded nonperishable foods.

Contents

Highlights

Several Asian Pacific countries have had the highest economic growth rates worldwide over the past 10 years.

Economic growth in these countries is also a motivating force for foreign exporters and domestic consumer groups and businesses to demand more trade liberalization. Several trade liberalization steps have recently been implemented and more are being planned.

High rates of economic growth increase consumer purchasing and influence consumers to modify their diets. In addition, Asian Pacific consumers are interested in new products and will try those that offer innovations in various characteristics of quality and packaging. The status of a product as an import can sometimes be identified as a characteristic that consumers want. In such cases, foreign sales agents will use the import characteristic as a method of product differentiation.

There are opportunities to increase sales volume by modifying products according to consumer preferences that are significantly pronounced in their purchasing patterns for competing brands of products. Product differentiation strategies, whether they are applied to special holiday packaging or for trying to establish a market niche, have to be carefully researched and coordinated in a joint effort between an exporter and a foreign sales agent.

Supermarket chains are expanding the numbers of their outlets in most Asian Pacific countries. The smaller scale mini market is also increasing as a major form of food retailing. These newer forms of retailing are gradually replacing traditional types of outlets, such as family operated neighborhood stores and outdoor markets. The chain stores are able to handle a wider range of products and brands, which increases opportunities for exporters.

Exporters of branded nonperishable foods often establish agent representation in Asian Pacific countries. The availability and quality of agent services tend to be greater in countries with more liberal policies on imports. Agent arrangements usually require legal agreements that specify terms for exclusive representation and for termination of business relationships.

Increasing exports by improving working relationships with sales agents can be accomplished in several ways. The first step is to locate and identify the best and most appropriate agent for the type of products an exporter handles. Another area of potential improvement is to make greater and more systematic use of agents as sources of market information. Cooperatives could also improve agent performance by establishing an agent-in-common.

MARKETING HIGH-VALUE FOOD PRODUCTS IN THE ASIAN PACIFIC

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High-value products (HVPs) accounted for 47 percent of total U.S. agricultural exports by value in 1988. In the category of HVPs for fruits, vegetables, and nuts (FVN), export volume to the United States' largest importer, Japan, increased by 40 percent, and the volume to Taiwan was up by 58 percent in 1988. Both the depreciation of the dollar and further liberalization of trade policies appear to have significantly influenced this increase. However, the key agent of long-term increases in U.S. exports of HVPs is the protracted economic expansion that many Asian Pacific countries are experiencing (see table 1).

Economic growth increases aggregate demand, as well as being an underlying influence on events that can also expand trade, such as reforms of protectionist trade policies and strengthened foreign currencies. Although much of the Asian Pacific region's economic growth has been export driven, with trade and exchange rate policies having supported this direction, many of these nations are beginning to make a transition to more internally stimulated economies and much higher levels of consumer spending. These shifts are occurring not only from international diplomatic pressures, but also from the relative freedom of market forces to influence change and adjustment.

Most of the Asian Pacific countries studied in this report permit all types of U.S. HVPs to be offered in consumer markets, although some of their regulations limit import volumes. The presence of relatively sophisticated and diverse consumer markets allows exporters of HVPs to compete on the basis of superior marketing and product qualities. Although regulations and competition constrain current export volumes, such constraints can be overcome or mitigated. In contrast, many other regions of the world are constrained by low levels of consumer income and a lack of entrepreneurs and business competition in their food retail sector, which are more serious barriers to trade opportunities.

Exporting HVPs involves more issues in consumer marketing than are usually encountered with bulk commodities, such as grains. One fundamental difference between most HVPs and bulk commodities, or what USDA often refers to as low-value products (LVPs), is significant product differentiation of the former. The latter are usually imported as an input in the system of producing consumer-ready foods. Although many HVPs are exported in bulk, they are classified as high value because of their significant per unit values. Nevertheless, the capacity for product differentiation is still relevant for many bulk HVPs in ways that are not possible for bulk grains. For example, many fresh fruits are differentiated by packinghouse reputations and even brand names.

Differentiating activities, such as processing techniques and promotion of brand names, open a wide range of consumer marketing challenges in addition to price competition. In contrast to bulk commodities, HVPs involve exporters more directly with retail distribution and foreign consumer preferences. Not all HVP exporters are directly involved with marketing efforts overseas, but such involvement appears to be critical if they want to achieve significant market penetration, whether it be managed by their own foreign sales offices or through agents.

Export marketing topics are emphasized in this report. Sections I and II summarize macroeconomic and trade policy conditions that influence performance and marketing strategies of HVP exporters. Sections III and IV examine general consumer characteristics for this region, their implications for marketing HVPs, and provide an overview of retail distribution. Section V reports the results of supermarket surveys of brand name fruit juices, tree nuts, and dried fruits, and considers some of the challenges in gaining access to supermarkets. Section VI

Table 1—Major economic indicators of Asian Pacific countries

	Population		GDP/cap	1987	Real GDP growth per year					Conmer prices growth		
	1987	1987 growth	1987		1960-70	1970-82	1983-87	1987	1988(e)	1983-87	1987	1988(e)*/
	Million	Percent	Dollars	Bil. dol.	Percent							
Japan	122.3	0.4	19,465	2,378.6	10.4	4.6	3.7	4.2	5.1	1.9	0.1	0.6
Hong Kong	5.6	2.0	6,923	29.1	10.0	9.9	8.0	13.5	7.0	5.9	5.5	7.5
Malaysia	16.1	2.6	1,880	31.0	6.5	7.7	3.7	5.2	8.1	1.9	1.1	3.0
Philippines	57.4	2.4	603	34.6	5.1	6.0	-0.6	5.9	6.7	16.3	3.8	8.0
Singapore	2.6	1.0	7,286	21.6	8.8	8.3	5.0	8.8	10.9	0.5	1.5	
South Korea	42.3	1.7	2,870	121.3	8.6	8.6	9.5	12.0	12.1	2.8	3.1	7.5
Taiwan	19.7	1.1	4,989	97.5	9.2	8.0	9.4	11.0	7.0	0.5	0.2	1.5
Thailand	54.0	1.8	2,273	48.6	8.4	7.1	4.9	6.6	10.6	2.3	2.5	5.0

	Trade balance		Current balance		External sector international reserves			U.S. trade balance		Share of
	1987	1988(e)	1987	1988(e)	1986	1987	1988	1981	1987	1987 total
	Billion Dollars									Percent
Japan	80.3	87.4	86.7	79	1/ 42.2	1/ 81.0	NA	-18.1	-59.8	34.9
Hong Kong	0.4	0	2.5	3.0	NA	NA	NA	-3.1	-6.5	3.8
Malaysia	5.2	6.5	2.3	3.1	1/ 6.0	1/ 7.4	1/ 6.1	-0.7	-1.2	0.7
Philippines	-1.0	-1.1	-0.7	-0.9	1/ 1.7	1/ 1.0	1/ 0.5	-0.4	-0.9	0.5
Singapore	-3.8	-2.0	0.6	1.3	1/ 12.9	2/ 15.2	2/ 15.6	0.8	-5.0	1.2
South Korea	6.3	8.5	9.6	13.5	1/ 8.0	1/ 9.2	1/ 10.7	-0.4	-9.6	5.8
Taiwan	19.0	11.9	18.2	10.5	1/ 46.3	1/ 76.7	1/ 70.3	-4.3	-16.4	11.1
Thailand	-1.2	-1.0	-0.6	-1.1	1/ 2.8	1/ 4.0	1/ 5.1	0.2	-1.2	0.5

Source: Various national statistical publications and Barclays Review, November 1988, pp. 17, 40, 41.

*/e = Estimate; NA = not available.

examines the system of exporting nonperishable HVPs by using foreign sales agents or distributors. Also, potential improvements in working relationships and organizational methods for achieving objectives with agents are examined.

Most aspects of marketing HVPs in foreign markets are relevant for any type of firm. However, cooperatives are distinct in that they are agents for growers. Cooperative strategies are focused not only on earnings of the enterprises they manage, but also on long-term effects of their commercial activities on increasing demand. A single or narrow product line focus by cooperatives also places some constraints on their international operations. An important part of cooperative marketing strategy is developing techniques that minimize the disadvantages of not being as transnational or as multiproduct in scope as are many competitors.

Eight countries in the Asian Pacific region were selected for studying the HVP trade: Japan, South Korea, Taiwan, Hong Kong, Singapore, Malaysia, Thailand, and the Philippines. A detailed country focus is not provided in this report because profiles of the economy and trade in HVPs for some of them are available in working papers from the Agricultural Cooperative Service (ACS). Given the regional approach of this report, many distinctive conditions of each country and national characteristics of consumers are not examined. Exporters should be aware that important differences in marketing and distribution exist among the Asian Pacific nations, and targeted or country-specific export marketing can often achieve competitive advantages over more regional approaches and strategies.

Research for this report was carried out by discussing and evaluating export marketing ideas in interviews with food importers, retailers, and international processors in the selected countries. Many cooperatives are major HVP

exporters and were also important sources of information for this report. The purpose of these interviews was to identify marketing techniques that would increase trade with U.S. cooperatives and to explore ways to overcome institutional or economic constraints to exporting HVPs.

This report examines marketing strategies that primarily apply to cooperatives that export nonperishable and branded food products. It provides some general description of market conditions and focuses on issues involved in exporting with foreign sales agents or distributors, particularly with the challenges of obtaining consistent and wide distribution of products to food retailers. When sales agent arrangements establish effective incentives and monitoring of performance, opportunities for successful exporting increase. The quality of agents is generally very high in the Asian Pacific region.

If these markets continue to become more liberalized, there will be substantial latitude and incentives for agents to carry out more sophisticated marketing and promotion programs for cooperatives. The pace of these changes is influenced by the performance of the general economy in each country and the trends in their external trade. An overview of these macroeconomic conditions follows in the first section of this report.

I. MACROECONOMY AND TRADE

World economic growth from 1989 through 1992 is expected to be slower than in 1988 according to projections prepared by analysts at the United Nations [1]. * World output growth is estimated to decline from a 3.8 percent growth in 1988 to 3.1 percent in the following 4 years. However, growth performance is expected to continue to vary considerably among regions and countries. Growth rates in developing areas may strengthen moderately, from 3.6 percent in 1988 to 4 percent in 1989. The Asian area is growing faster than any other region in the world.

Japan and the four newly industrializing countries (NICs) of Hong Kong, Singapore, South Korea, and Taiwan have recorded the world's fastest economic growth during the past 25 years. Gross domestic product (GDP) in these NICs has grown at an average annual rate of over 9 percent since the 1960's compared to less than 5 percent for the world as a whole. The NICs are entering a high-technology phase of economic development.

Gross Domestic Product (GDP)

Japan

Japan's economy should continue to expand at the present brisk real rate of 5 percent for the next 3 to 4 years. Increased consumer spending, business capital investment, and a continuing high level of exports are expected to provide the underpinnings for growth (table 1). The average Japanese earned the equivalent of $23,000 in 1987, well above the U.S. average of $18,163, which was the highest among major industrialized countries. However, on the basis of purchasing power as of 1987, the average American was better off with $9,009 compared to $7,302 for the Japanese. West Germany was ranked second in the categories of per capita income and purchasing power.

Taiwan

Taiwan's economy expanded by 7 percent in 1988, well below the 11 percent growth recorded in 1987. Inflation has not posed a serious problem. Consumer prices rose about 1.5 percent in 1988. Taiwan's economic growth has been dependent on external factors. With more than 50 percent of the country's gross national product (GNP) generated by exports, Taiwan's economic performance is more dependent on foreign demand than are most other countries.

The country's ninth 4-year plan shifts emphasis from export growth to the development of a more diversified, high-technology industrial structure such as information, fiber optics, biotechnology, medical technology, and precision machinery and devices. The plan also calls for the upgrading of Taiwan's traditional labor-intensive manufacturing to more capital-intensive and higher-value-added products. Small- and medium-sized firms dominate industry. A major potential source of productivity gain for Taiwan's economy is in industrial restructuring.

Taiwan has been exposed to a potential decline of its foreign markets by the loss of its

* Numbers in brackets refer to publications in reference section.

status with the United States under the General System of Preferences, the appreciation of the New Taiwan (NT) dollar, and rising labor costs. In an effort to maintain these export markets, Taiwan's labor-intensive manufacturers began to move some production offshore to countries like Thailand, Malaysia, China, and India.

South Korea

Korea's economy recorded its three highest growth years from 1986 to 1988. Real GDP, fueled by strong investment and surging exports, was up 12 percent in 1987 and about 12.1 percent in 1988. The country's economic planning board expects that economic growth will slow to an 8- percent rate in 1989. A possible slowdown is attributed to (1) the won's appreciation against the dollar, which reduces the competitiveness of Korean products in international markets, and (2) substantial increases in Korean factory workers' wages, shorter working hours, and other improvements in working conditions.

Hong Kong

Until 1987, Hong Kong had registered the fastest advance in the region. Real GDP growth rates dropped from 13.5 percent in 1987 to about 7 percent in 1988. An inflation that is occurring from a rise in labor costs seems to be slowing Hong Kong's economic growth. The rate of inflation increased from 5.5 percent in 1987 to 7.5 percent in 1988 and is expected to remain at that relatively high level in 1989. To maintain competitiveness, Hong Kong can be expected to shift its industry into increasingly more knowledge-intensive technology and higher-value-added products.

The resumption of China's sovereignty over Hong Kong in 1997 makes it more difficult to formulate a long-term outlook. An estimated 45,000 people left in 1988 because of uncertainties about 1997. There is potential for the retrocession of Hong Kong to create new economic opportunities. One observer believes that if Hong Kong were made a special administrative zone, with it own currency and free market system, there would be substantial economic benefits for China [2]. For example, foreign exchange constraints in China could be alleviated by having Hong Kong trading companies function as intermediaries for converting barter trades into cash transactions.

Singapore

Singapore's economy maintained an annual real growth rate of 9 percent in 1988 despite sharply rising labor costs. Foreign trade dominates Singapore's economy. Total trade in 1987 was more than three times GDP, and exports amounted to 145 percent of GDP. Manufacturing should remain the engine of growth, with an increase in high-tech industries and international business services. The inflation rate increased from 0.5 percent in 1987 to 1.5 percent in 1988, a comparatively modest advance.

Thailand

For Thailand the outlook is for some deceleration in economic growth to 7 percent in 1989 due to infrastructure weaknesses. Inflationary pressures are mounting and may reach 7 percent, far above the post-1981 average of 2.8 percent. By 1990, a lower world demand and continued inflation are projected to slow economic growth to 3-4 percent.

Malaysia

Malaysia's economy expanded at an estimated rate of 7.5 percent in 1988. The surge in 1988's pace of economic activity is due to strong external demand for Malaysia's manufactures, an upturn in commodity prices, and a revival of foreign investment.

Philippines

The Philippines achieved inflation-adjusted or real economic growth of 5.7 percent in 1987 and grew at an estimated 6.5 percent in 1988. While this growth is low in comparison with other Asian Pacific countries, it compares favorably with a 1.1-percent growth in 1986 and negative growth for some years previously. The impetus came from a combination of political change, higher export prices, increased foreign investment, and recovery in personal consumption. Economic growth is expected to abate slightly in 1989.

Balance of Trade

The eight survey countries in this study accounted for $100.4 billion, or 58.7 percent, of the record $171.2 billion U.S. trade deficit in 1987. There are indications that this large trade imbalance between the United States and the Asian Pacific region will diminish during the 1990's. Adjustments in international trade balances are difficult to predict and may occur only gradually. Nevertheless, exporters in large trade deficit countries usually have an exchange rate advantage over competitors from large surplus countries.

Japan

Japan's trade surplus with the United States was the largest for any single country, at $59.8 billion in 1987. Its total trade surplus was about $87.4 billion in 1988 and is forecasted to widen in 1989 due to its recent expansion in exports. Japanese exporters adjusted to a higher yen in recent years to sustain their export volume and market shares. However, Japanese trade surpluses may diminish in the 1990's from an increase in imports due to substantial growth in consumer spending.

Taiwan

Taiwan's trade surplus decreased from $19.0 billion in 1987 to an estimated $11.9 billion in 1988. It is projected to continue to decrease in 1989, but by a much smaller amount than occurred in 1988. Japan is the only major country against which Taiwan runs a substantial deficit —$4.2 billion on total trade of $18.5 billion in 1987. As a result of its overall trade surpluses, Taiwan's foreign exchange reserves rose to $76.7 billion in 1987, surpassing Germany's and trailing only Japan's.

Taiwan is planning to further reduce its trade surplus to about $8.6 billion in 5 years by increasing imports from the United States. Taiwan's trade surplus with the United States is estimated to have fallen to $10 billion in 1988 from the $16.4 billion level in 1987. Substantial tariff cuts and a 41-percent appreciation of the NT dollar since September 1985 against the U.S. dollar helped this reduction.

South Korea

In 1987 Korea's trade surplus with the United States increased to $9.6 billion, up from $7.4 billion in 1986. During the first half of 1988, Korea's trade surplus with the United States totaled $3.9 billion, 15 percent lower than the same period in 1987. The drop resulted from a sharp increase in U.S. exports due, in part, to an 8.8-percent appreciation of the won against the dollar. In 1987, the won appreciated against the dollar but depreciated against most other international currencies.

Korea recorded its first net trade surplus of $3.5 billion in 1986, after many years of annual deficits. The surplus grew further to $6.3 billion in 1987 and is estimated to have been about $8.5 billion in 1988. Korea has a deficit in its trade with Japan which totaled $5.2 billion in 1987. The recent overall trade surpluses have allowed Korea to sharply reduce its gross foreign debt from $44.5 billion in 1986 to $35.6 billion in 1987.

Malaysia

Malaysia's trade surplus at $5.2 billion in 1987 was up 69 percent from 1986, and it widened further in 1988 to an estimated $6.5 billion. About 20 percent of this surplus is with the United States. The Malaysian trade surplus is expected to narrow slightly in 1989.

Hong Kong

Hong Kong's overall trade account is more balanced in relation to the size of its GDP than many other Asian Pacific countries (see table 1). However, while its overall trade surplus was moderate at $400 million in 1987, its account with the United States was about $6.8 billion in surplus, having increased by an estimated $350 million in 1988.

Trade Deficit Nations

The trade accounts of Singapore, Thailand, and the Philippines are in deficit overall but in surplus with the United States. Singapore reduced its trade account deficit from $3.8 billion in 1987 to about $2.0 billion in 1988. It is adopting programs to diversify its foreign markets. Trade deficits are expected to widen in Thailand and the Philippines.

Thailand's trade deficit is projected to increase in 1989 above its 1988 level of about $1.0 billion. The main reason for its growing trade deficit is a projected expansion in imports.

The Philippines has traditionally run a substantial deficit in trade accounts. With imports estimated at around $7.8 billion and exports at $6.7 billion, its trade deficit in 1988 is slightly above the 1987 level. The trade gap is projected to widen in 1989 when export growth is expected to be slower because of a less vigorous world economy.

Exports of Selected HVPs

Aggregated U.S. export data for the HVPs that were examined in major Asian Pacific markets are reported in table 2. More detailed measurement of trade flows and U.S. market shares is provided in selected issues of Horticulture Products Review from the Foreign Agriculture Service or is available from some commodity trade associations. Selected U.S. HVP exports for the most recent two fiscal years, by total value to Japan and the four NICs in the Asian Pacific, are reported in table 2. They give a general indication of the importance of these markets for the selected HVPs that are examined in this report.

Japan and the NICs accounted for about 45 percent of U.S. exports of canned fruits and fruit juices, other than orange. Orange juice exports to these five countries were only about 17 percent of total exports, but they increased in 1987/88 compared with the previous year. Exports to Japan had an almost threefold increase in value.

Japan is a major almond market, although annual dollar sales declined in 1987/88 by 20 percent. Western Europe has traditionally been a larger market for nuts and dried fruits than the Asian Pacific. Nevertheless, export values of these HVPs are increasing faster to the Asian Pacific NICs than to any other region.

Exports to Japan of selected HVPs by com-

Table 2—Value of U.S. exports of selected HVPs, fiscal years 1986/87 and 1987/88

HVP	World		Japan		NICs 1/	
	86/87	87/88	86/87	87/88	86/87	87/88
	1,000 dollars					
Raisins	128,138	149,721	25,898	33,440	10,734	
Prunes	81,393	95,081	11,814	14,327	2.220	
Orange juice	87,505	114,861	3,282	9,782	7,508	10,600
Fruit juices	97,587	137,618	35,777	49,738	5,928	11,286
Walnuts	105,395	114,185	7,945	7,782	1,803	
Canned fruit	64,948	79,099	15,053	21,218	13,452	15,399

Source: FATUS, USDA, ERS.

1/ NICs include Singapore, Hong Kong, S. Korea, and Taiwan.
2/ Juice export sales include frozen concentrate and single strength.

Table 3—Japanese imports of selected HVPs by exporting country, 1987

HVP	Volume	Share
	Metric tons	*Percent*
Raisins		
United States	20,289	81
S. Africa	2,666	11
Australia	1,973	8
Other	143	--
Total	25,071	100
Prunes		
United States	8,715	100
France	6	—
Total	8,721	100
Almonds		
United States	15,880	100
Spain	36	—
Italy	4	—
Total	15,920	100
Walnuts		
United States	4,759	75
China	1,490	23
N. Korea	78	1
India	74	1
Total	6,401	100
Canned peaches		
S. Africa	15,044	38
United States	9,158	23
Greece	6,763	17
Australia	5,890	15
Other	3,010	7
Total	39,865	100
Canned fruit cocktail		
United States	3,503	47
S. Africa	2,037	27
Australia	981	13
Other	986	13
Total	7,507	100

Source: Japan Tariff Association.

peting nations and their market shares in 1987 are reported in table 3. Japan is by far the largest market for the HVP trade, and major exporters concentrate their market development efforts there. While trade is substantial to other Asian Pacific countries, market shares in Japan provide an approximate indication of the major competitors exporting to this region. The FAS Horticulture Products Review and commodity associations monitor global trade flows and market shares for these and other HVPs.

Changes in trade policies are being influenced by the kind of economic growth and trade performance that many of the Asian Pacific countries have achieved.

II. TRADE POLICY DEVELOPMENTS

Trade Restrictions

Most countries protect their agricultural producers with high duties and other trade barriers that insulate them from foreign competition. Trade barriers often escalate with higher stages of processing of products. Each survey country pursues policies that are designed to encourage the development of their own high-value-product production and processing capacities to relieve unemployment and reduce import dependency. A variety of nontariff barriers are being employed including quotas, licensing, and phytosanitary regulation.

Japan has had an extremely complicated system of trade restrictions, including tariffs, various kinds of nontariff barriers, and, in the view of many exporters, a complicated distribution system that acts as an effective restriction on imports. Some of Japan's recent steps toward trade liberalization are discussed below. In late 1990, the United States and Japan are planning to negotiate on further relaxation in Japan's trade prohibitions. The United States wants all quotas eliminated because they are inconsistent with Japan's obligations under the General Agreement on Tariffs and Trade (GATT).

The Malaysian tariff rates range from zero to 100 percent, although few items are dutiable at more than 25 percent. Duties for processed and high value products such as fresh and canned fruits are in the 30 to 35 percent range. Nontariff controls are not extensive, but include license and quota restrictions, anti dumping regulations, and health protective measures, which shield local production from foreign competition. New health regulations for food introduced in 1986 are not restrictive but do set specific requirements regarding labeling, date marking, use of additives, etc.

The Philippines regulates trade through ad valorem tariffs and customs surcharges. The tariffs range from 10 to 50 percent, with a 5-percent surtax. There is a minimum tariff of 10 percent on imports. Horticultural products imported into the Philippines are charged a basic import tariff of 50 percent ad valorem. In addition, it has a restriction that letters of credit be accompanied with a cash deposit equivalent to the full credit amount.

Korea restricts the importation of products that can be produced domestically and only permits importation of the least amount needed to cover a shortfall in local production. Korean tariff rates are high for processed products, fruits, vegetables, and for goods considered luxury products. The major nontariff barriers include (1) import prohibition,(2) import licensing, (3) import quotas, (4) phytosanitary controls, and (5) monopoly over imports. The Ministry of Commerce and Industry supervises the importation of most fruits, nuts, and processed products in general. Korea still bans importation of oranges, apples, and table grapes. Frozen concentrated orange juice is subject to highly restrictive quotas and large duties.

Current Taiwanese tariffs on high-value and processed food products are still very high. Tariffs on fresh citrus fruit are 25 percent in the March-September season, rising to 50 percent in the October-February season. The tariff on fresh grapes is 42.5 percent of their price and 45 percent for fruit juices, canned fruits, and frozen peaches. Taiwan has tightened controls over the issuance of import permits for horticultural products. Effective June 11, 1988, the total volume authorized on a given import permit must be shipped at one time and each import permit will be valid only for one product. Previously, import permits could include multiple items and could be shipped at various times over the specified time period. Horticultural products affected by the new regulations include oranges, lemons, grapefruit, apples, grapes, peaches, plums,

kiwifruit, watermelon, onions, garlic, frozen potatoes, dried garlic bulbs, canned pineapple, and honey.

At present, import permits are available to Taiwanese importers for fruit items supplied by the United States. Taiwanese officials are considering utilizing volume controls which, if implemented, would be a set back to trade reform.

Thailand restricts imports with tariffs, which in some cases are over 100 percent ad valorem. Although it is a significant producer of rice and, increasingly, of fruits and vegetables, Thailand has taken several initiatives to reduce imports of food products. In the early 1980's, it established a ban on packaged fruit juices and maintains a high tariff and other taxes on products according to their percentage of foreign country contents. Thailand also devalued its currency by 17.5 percent in 1985. Its trade restrictions on many HVPs have caused a burgeoning smuggling industry from Malaysia and Singapore. In regard to U.S. commercial policies, Thailand is unlikely to liberalize HVP imports in the near future because of its dissatisfaction with U.S. rice policies and demands for more stringent laws to protect intellectual property rights.

Trade Liberalization

The United States is maintaining pressure on Japan, South Korea, and Taiwan to open their markets to more U.S. goods and thus reduce their huge trade surpluses. In an effort to cut trade frictions with the United States, Japan has eased or removed entirely a number of tariff and nontariff barriers to foreign products entering the country. Under an agreement reached on July 20, 1988, Japan has committed itself to end import quotas on seven categories of processed foods by April 1, 1990. These include pineapple products, fruit purees, fruit pulp and pastes, noncitrus juices, tomato ketchup, and tomato sauces. The ban on U.S. nectarines from California was lifted effective June 20, 1988, and all entry date restrictions for U.S. cherries are to be removed by 1992. The United States-Japan Beef and Citrus Agreement of June 1988 calls for Japan to eliminate quotas on beef, fresh oranges, and orange juice and make significant reductions in its import duties for selected horticultural products including walnuts and pecans.

Agricultural market opening is progressing slowly in Korea because of strong opposition from farmers. Even consumer groups have supported the agricultural sector's opposition despite higher food costs. The Korean Government began to respond to U.S. requests in 1985 by lifting import curbs over a period of time for products that are generally not competitive substitutes for local production. Grapefruit juice, lemon juice, and cranberry juice became importable effective July 1, 1987, at a 50-percent tariff. On July 1, 1988, tariffs were reduced from 50 percent to 45 percent for almonds and cherries, and for raisins the rate was lowered to 40 percent. Also on that date, the following products were moved to automatic import approval status: avocados, canned fruit cocktail, fruit salad, mixed fruits, and some vegetable juices.

Effective April 30, 1988, the Philippine Government allowed the importation of fresh fruits, dried fruits and nuts, canned peaches, almonds, fruit cocktail, and raisins without the prior approval from the Central Bank and the Board of Investments.

Taiwan cut tariffs in February 1988 on 3,520 items, which lowered the average nominal tariff rate to under 13 percent. Overall, however, liberalization was greatest for products that are not produced or have no production potential in Taiwan.

Most goods enter Malaysia under an open general license and most agricultural products are admitted without restrictions. Despite recent liberalization measures, tariff rates on processed foods and fruits are still high and limit imports.

Implications of Loss of GSP Status

The United States has withdrawn the privileges under the Generalized System of Preferences (GSP) from Hong Kong, Singapore, South Korea, and Taiwan. Combined GSP imports into the United States from these four countries amounted to around $9.7 billion in 1987, some 60 percent of all such trade. Taiwan, South Korea, and Hong Kong were the top three worldwide, with Singapore trailing Mexico in fifth place. These countries stand to lose millions of dollars in foreign exchange earnings that, in turn, can affect their capability to import. The severity of impact varies by country.

In 1987, about $1.7 billion worth of exports from Hong Kong have benefited from GSP treatment. The main Hong Kong exports affected are toys, sports equipment, telephones, certain household appliances including cooking utensils, some electronic recording and telecommunications equipment, and wooden furniture.

About $1.3 billion worth of Singapore products exported to the United States enjoyed GSP benefits in 1987. These exports will have about $235 million in duties tacked on. Chief among these are printed circuit boards and computers, telephones, answering machines, switchboard panels, furniture, television sets, medical and surgical instruments, generators, and some noncoated or plated iron and steel articles.

Singapore expects to benefit from Japan's decision to expand ceiling quotas on 62 out of 146 product groups under its GSP scheme. Singapore was the fifth largest beneficiary of Japan's preferential tariffs in 1986 after Korea, Taiwan, China, and the Philippines. The decision of the United States to drop Singapore from its GSP scheme has led to renewed emphasis on the need to reduce Singapore's dependence on the U.S. market.

South Korea insists that with per capita GNP of less than $3,000 it is still a developing country and should be allowed to retain its GSP status. Some 1,200 Korean products are exported under GSP, worth between $2.2 and $2.5 billion annually. Removal of GSP entitlement may reduce shipments of affected items by about 10 percent. Heading the list are computers, ornaments, switches, telephone switchboards, sporting goods and games, rubber and plastic products, refrigerators, and automotive parts.

Taiwan shipped $4.2 billion worth of such exports to the United States in 1987. To compensate for loss of U.S. GSP privileges, Taiwan is stepping up its drive for diversification of export markets into Europe, the Middle East, and Latin America.

In 1987, only about $329 million worth of Philippine exports entered the United States under the GSP. It ranked 10th worldwide as a GSP beneficiary. The Philippines should do better considering that 3,000 items qualify under the program.

The Philippines is moving to capture some of the GSP trade benefits lost by its four Asian rivals. Officials are drawing up plans to help local manufacturers upgrade the quality of their products and draft lists of various products to be promoted. Promotion efforts will concentrate on products now exported by the four rivals. As part of these efforts, the Philippine Government offers tax holidays and other benefits as incentives to foreign investors, especially from those countries that lost their duty-free privileges. It argues that the loss of GSP could be overcome by exporting from the Philippines.

III. CONSUMER BEHAVIOR

Economic growth and a more liberalized trading system for some of the countries of the Asian Pacific region are affecting consumer characteristics and behavior. Information about consumers can be particularly important in developing marketing strategies for branded products, and an overview of regional and individual country characteristics of consumers will be discussed below.

When exporters consider potential demand in new markets, initial screening can be accomplished by examining trade data and using various socioeconomic indicators of consumer behavior. Even in established markets, where exporters have their past sales performance as a direct source of information in addition to indicators, they often use studies of consumers to help decide how sales can improve by using different marketing techniques or to predict the impact of new or modified products.

There are limitations in what can be inferred about potential sales from examining various characteristics of consumer behavior. These data are usually too generalized and aggregated to indicate future demand prospects for any specific product. There are also important national differences that limit the usefulness of international comparisons. In addition, when markets have been subjected to substantial protectionism and regulation, observations about consumer behavior may quickly become outdated if significant liberalization were to occur.

This section examines consumer characteristics that are primarily relevant to the marketing of imports. Two important issues of international marketing are: (1) the extent to which there are special considerations for marketing imports,

and (2) the determination as to whether products or their packaging should be modified to better serve distinctive needs of Asian Pacific consumers.

Marketing Imports

Many imported HVPs do not become staple products for the mass consumer in foreign markets. Imported HVPs are often valued as special products that provide variety in taste and packaging. The distinction of being an import can further differentiate some products in favorable ways. Export marketing literature often emphasizes the need to adapt products to local preferences, but such recommendations usually refer to packaging and labeling modifications [3]. In most overseas markets there is a segment of consumers who are receptive to imports. According to many Asian Pacific food venders, American foods have a favorable image when not perceived by consumers as directly substituting for domestic production.

Gifts and Holidays

Food HVPs are a popular holiday purchase and gift item in many Asian Pacific countries, and imports often capture a large share of this market. The major gift-giving holidays among the Chinese populations are: the Chinese New Year (January/February), Dragon Boat Festival (May/June), and August Moon (August/September). In Japan, the major holidays are O-Chugen (summer) and O-Seibo (end of year). The Japanese biannual bonus system of salary compensation coincides with these holidays, which helps increase spending on gifts. As a component of its complicated and consumer-service-oriented distribution system, the Japanese have specialized gift ordering services [4].

Usually, food retailers assemble various foods and drinks in a gift basket, which reduces the need for special packaging. A sales advantage might be achievable with special packaging, but usually export processors do not initiate the making of holiday packs for foreign markets. Rather, foreign retailers or food companies contact U.S. processors for customized packing at agreed prices and with purchase commitments. U.S. processors may assume an initiating role and some of the risk and reward in these kinds of sales projects. For example, they could promote to foreign retailers the advantages of their products and services for holiday sales and make consumer advertising commitments.

Tourism

Imports often have a significant role in satisfying consumer demand for a more varied and interesting diet. Demand for variety usually increases with the level of personal income. In particular, activities that accompany income growth, such as tourism, can increase receptiveness to imported foods and beverages.

Consumers often develop a taste for imported foods when visiting the countries where such products are produced and widely sold. Consumers may also prefer the imported brands they observe when visiting an exporting country of those products. This tendency adds a broader visibility or showcase dimension to having major product presence in locations that attract foreign tourists. Significant attention has been given to the increase of Japanese tourism being fostered by the appreciated value of the yen. The number of Japanese tourists to the United States increased by 26.6 percent in 1987. Tourist travel by the Taiwanese is also relatively significant (see table 4).

Countries with high rates of tourism are important markets because products receive exposure to more potential consumers than indicated by their population. For example, Singapore and Hong Kong are significant showcases for products to global travelers, even though these countries have relatively small populations. These two countries and Thailand had significantly more foreign visitors in 1986 than did Japan (see table 5). Tourists or business

Table 4—Visitors to United States from selected Asian Pacific countries

Country	Arrivals (1,000) 1986	Arrivals (1,000) 1987	% change
Hong Kong	106	110	3.3
Taiwan	152	163	7.0
South Korea	72	0.5	
Philippines	80	82	2.4
Japan	1,681	2,128	26.6

Source: Recap of International Travel To and From the United States in 1987, Department of Commerce.

Table 5—Visitors to selected Asian Pacific countries

Country	Arrivals (1,000) 1986	Arrivals (1,000) 1987 1/	Arrivals as percent of population (1986)2/
Singapore	3,191	3,700	123
Hong Kong	3,733	NA	68
Taiwan	1,610	1,710	8
South Korea	1,660	NA	4
Thailand	2,818	3,483	5
Japan	2,061	NA	2

Source: International Tourist, Economic Intelligence Unit, National Report No 147, 1988.

1/ Estimates
2/ Ratios not included in source publication.

travelers may take notice of familiar products they observe when visiting a foreign country, but impacts on demand would occur in their countries of residence.

Consumer demand for variety creates niches that exports can often fill at lower cost than local competitors could. If demand for a product increases in a particular foreign market, a cycle of imports followed by local processing of import-substitutes often occurs [5]. Exports of branded HVPs are often effectively sustained when foreign markets are individually too small to induce substantial competition from local processors. In these situations, an exporter will usually have a large U.S. market to achieve adequate economies of size in production. Exporters with these kinds of opportunities seek to understand foreign consumer behavior from the standpoint of promotion but generally do not make significant modifications of products for different export destinations. Cooperatives often operate with this type of export approach in contrast to a multinational processor or an overseas joint venture strategy that allows product modification to be more economical.

Adapting Products to Asian Pacific Consumers

U.S. food processors can accomplish some differentiation of their products for Asian Pacific markets without having to be involved with overseas investment and foreign partnerships. The following characteristics are examples of distinctive preferences in foreign markets that offer potential gains for product differentiation and innovation.

Shopping Frequency

One of the more widely reported differences in consumer characteristics between the United States and most other industrially developed nations is a higher frequency of consumer shopping in the latter. This difference appears to result in part from the smaller housing units and size of home refrigerators in Asian Pacific cities. These consumers are reported to do much less home storage of foods than Americans because of their daily shopping habits. Nevertheless, ease of storage is a distinctive advantage of processed foods, and exporters should consider packaging innovations that reduce bulkiness and weight of products.

Smaller size packaging is generally preferred to larger sizes, and even the shape of a container can have an impact. For example, some of the success of tetrapaks for juice and other drinks in the Asian Pacific markets is attributed to the storage efficiency of its rectangular box shape. Another advantage for consumers is the relative lightness of this form of packaging over glass bottles and tin cans. As a part of the daily shopping routine, many Asian Pacific consumers carry groceries home by foot or on bicycle.

Bulk Retail Display

Much of the traditional street or wet market retailing consists of offering products in an unpackaged or bulk form. Many Asian Pacific consumers appear to maintain a preference for bulk display, even when shopping in supermarkets. For example, U.S. nuts and dried fruits are commonly retailed in a bulk or loose manner in Asian Pacific countries, even though exporters would prefer to sell their products in value-added packaging with brand identification.

U.S. exporters with well-recognized brands and advertising campaigns forgo some degree of consumer identification for their products from this type of retailing. The practice of stamping a brand name on fresh fruits and in-shell nuts is a common method to counteract this particular disadvantage. Many exporters could also strengthen their branded approach, besides individual item labeling, by having their foreign sales agents explore the feasibility of having retailers not mix supplies from competitors in

produce bins. Agents could work with retailers in posting brand names where prices are listed.

Clear Packaging

Several importers and retailers emphasized that consumers prefer transparent packaging because of their desire to see the product, which is a feature that traditional retailing systems often provide and is important when trying to introduce unfamiliar products to them. Local packers of juices, dried fruits, nuts, and canned fruits more often used clear packaging, glass or plastic, than was used in products packaged in the United States. A local processor in Malaysia has test-marketed a fruit cocktail in a small and clear plastic cup. However, supermarket surveys reveal a wide range of different packaging on the shelves, and it was otherwise not possible to measure the strength of consumer preference for transparent packaging.

Summary

Many HVPs gain a market niche in Asian Pacific countries because of their U.S. origin. This is often a desirable characteristic in itself. In such cases an exporter may not want to adapt the product to imitate local styles of competing products. There often are market niches for imports.

Identifying consumer characteristics that affect demand for products can be a highly complicated and imprecise exercise, yet some product modifications have potential to expand the market. Some firms pursue both strategies, offering products with a global or U.S. style of packaging under one brand name, and making differentiated products for selected market niches under another. Such strategies are usually feasible only for multinational packers and processors and are difficult to accomplish in a strictly export operation.

Exclusively U.S. origin exporters can accomplish some economical forms of differentiation by taking a regional approach. For example, Asian Pacific consumers appear to have a preference for smaller-sized packaging. Other preferences in packaging, such as transparency, received mixed opinions from retailers and importers as to their importance to consumers. In addition, while not having local processing involvement through a subsidiary, exporters can establish overseas sales operations that monitor foreign markets and identify alternative ways to produce and distribute new products.

IV. RETAIL DISTRIBUTION

Introduction

Trade liberalization can create more opportunities for U.S. exporters, but there can be short run capacity constraints in retail industries for offering new brands and more products. Retailer adjustments of capacity in terms of size and number of stores can be improved if exporters build trust by means of long-term commitment and market development. Developments in the food retail industry are important for HVP export prospects.

Supermarkets are a form of retailing with the most capacity to offer many different kinds and brands of U.S. processed foods. However, other forms of retailing can also be significant outlets. Supermarkets and convenience store franchise chains are rapidly increasing their number of outlets in many of these countries. Some Asian Pacific retailers are seeking technical and management information from U.S. supermarket firms to improve their efficiency, or to enter joint venturing with United States, West European, or Japanese retailers.

The systems of food distribution in overseas markets influence the types of marketing strategies used by HVP exporters. The complexity of distribution and the nature of an import agent's role in a marketing system differ by type of product and by country. Exporters of dry goods generally have more alternative channels and possible choices of agent representation than is available for fresh and frozen foods. Exporters of fresh produce and meats usually must confine their dealings to agents that specialize in handling these types of products. Retail outlets, except supermarkets, are also different from that of dry goods. This section of the report describes retail distribution of HVPs primarily in reference to dry goods, with some observations having relevance to fresh and frozen products.

Asian Pacific countries exhibit distinctive characteristics in their distribution of food, with multilayered versus streamlined systems being

the most evident difference. The city-state nations, Hong Kong and Singapore, have less requirements for a wholesale level and consequently exhibit a more direct system between sales agent and retail businesses than in Japan. In addition to being vertically multilayered by wholesale transactions, Japanese distribution has limited horizontal movement. Once exporters develop distribution to certain retail outlets, the system tends to limit their access to many others.

The following discussion of retailing is organized by each Asian Pacific country that was studied, with an emphasis on developments in Japan. A common trend in the region is rapid growth of supermarket and convenience store chains. A development that is not examined but is having a major impact is the growth of fast food chains. Its impact, however, is mostly on meats, potatoes, and flour, with less of a direct effect on fruits and nuts.

Japan

The system of food distribution in Japan is especially critical, not only because it is the largest market for U.S. HVPs, but also because a proposed regulatory reform could further expand export opportunities. In addition, Japan's large retail chains have been entering other major Pacific Rim markets, and they continue to increase their international procurement capabilities. Recently, there have been several descriptive reports on Japanese distribution by the Japanese External Trade Organization (JETRO) and by U.S. industry associations. This section summarizes selected topics but does not replicate these more comprehensive studies [6].

Traditional food retailing consists of large urban department stores and small neighborhood general and specialized food stores. The former are general merchandisers of consumer products that emphasize high quality and service. Their food sections offer gourmet items and products for everyday consumption. Mid-1970's estimates of retail market shares place them at about 12 percent and given their established market segment, recent lower cost retail alternatives may not be significantly eroding their position [7]. Department stores are a prestige outlet that is important for HVPs whose best marketing opportunities are in this consumer segment.

Neighborhood store retailing is the other traditional outlet in Japan for consumer food shopping. They are individually owned and operated by family members. Mid-1970's estimates of market shares by food type report them at about 40-50 percent in dry goods and about 70 percent in fresh foods, although they are reported to be steadily losing ground in fresh fruits and vegetables [8]. Over a 3-year period from 1983-85, the number of neighborhood stores declined by 5.4 percent to about 1.6 million [9]. Nevertheless, they have comprised a significant political interest group for imposing regulations on supermarket retailing.

Super chain stores are a segment of Japanese food retailing that emerged in the 1960's. Although their grocery retailing methods are similar to U.S. supermarkets, they offer general consumer merchandise. Unlike Japanese department stores, they provide consumers a lower cost alternative by offering brands over a wider price range and less intensive sales clerk service in comparison.

Mid-1970's estimates place the super chains at about 40 percent of retail food sales, higher in dry goods, predominant in frozen foods, and much lower in fish and certain kinds of domestically produced meat. By 1986, there were 1,427 super chain companies, with sales of $105 billion in 1985 for food and nonfood consumer goods. (Total Japanese retail sales in 1985 were $905 billion, with food sales having a 30-percent share.) Within the super chain store segment, the top 10 account for one-third of the $105 billion, and the leading company, Daiei, is below 9 percent in its industry segment and about 1.6 percent of total retail sales [10].

The super chains have been competitors to many neighborhood stores in and around Japan's major urban centers. In 1974, a law was enacted to regulate the opening of new large-scale retail stores. Nevertheless, super chains increased their stores from around 2,500 in 1976 to more than 11,000 by 1986, but have had limited freedom in choosing their locations or have opened smaller sized stores than they would have otherwise preferred [11].

Innovative retailers and consumers have adjusted to Japan's market regulation in several ways. In response to limited retail space, convenience chain stores with 24-hour service have expanded rapidly. The 7-11 chain is operated as

a joint venture, with 3,927 outlets by mid-1988 reported as owned or franchised [12]. Other convenience store networks that are operated by super chain companies include the Lawson chain and Family Mart chain.

Alternative forms of retailing and consumer purchasing have recently become significant in Japan. By the early 1980's about 40 percent of canned and bottled drinks were being sold through vending machines, and annual beverage sales through this outlet increased by 15 percent in 1987 [13]. Mail and telephone order catalogs are reported to be increasing for consumer products generally. Consumer cooperatives have been a form of adjustment to regulations that can diminish the volume of consumer purchasing. A survey for 1985 sales showed that 578 consumer cooperatives accounted for 1.9 percent of Japan's retail market [14]. Inefficiencies in the traditional and regulated distribution system might be influencing expansion of these alternatives.

Proposals for reform of laws and policies in the areas of external trade and agriculture could also have major impacts on Japan's food distribution system. As pointed out above, many changes in retailing to more competitively meet consumer demand are occurring regardless of reform proposals. Other developments are possibly being influenced by expectations of reforms and the high value of the yen. For example, several leading Japanese processors and retailers are pursuing either direct contracting or "develop and import schemes" with overseas agricultural producers [15]. They are also acquiring overseas packers due to the value of the yen and expectations that trade and agricultural reform will make local procurement less efficient or competitive.

Anticipation of distribution reform is possibly influencing recent interest by Japanese retailers in American supermarket techniques. Reform prospects for distribution might also be an impetus behind a recent joint venture between a Japanese general trading company and a U.S. grocery cooperative, IGA, to implement a coordinated system for small Japanese stores. [16] IGA had developed as a grocery procurement cooperative in the U.S. to improve the ability of small retailers to compete with large supermarket chain stores.

Alternative methods of marketing are rapidly emerging that, while coexisting with traditional techniques, have potential to significantly alter Japan's distribution system and industry market shares in the coming years.

South Korea

South Korean import restrictions are a more immediate concern to most exporters than the status of its food retailing, but development of a supermarket system will permit greater gains from a process of trade liberalization. Apart from procurement channels for hotels and foreign commissaries, imports of most HVPs are not permitted. As a result of many years of an import substitution policy for processed food, South Korea's present distribution industry for HVP imports is less developed in comparison to other industrialized countries. However, its distribution of Korean-made products is highly developed and its supermarket retailing is comparatively large.

As in other Asian Pacific countries, most retailing is by family-owned neighborhood stores and outdoor markets. However, supermarkets are estimated to supply about 18-25 percent of consumer food purchases, which is higher than in ASEAN countries. They offer many products that are distinctly American in type of product and package style, such as peanut butter, but processing and packaging is done by Korean firms. In fact, many supermarket chains are divisions of large food-processing companies [17].

Supermarket retailing is expanding. The Korea Super Chain Association reported a 20.7 percent increase in annual sales of its members in 1986. Its membership is mostly composed of supermarkets and large department stores, with a total of 8,506 outlets by 1986 [18].

Supermarkets are experiencing some expansion as a part of a boom in construction of high-rise residential areas. Urban population is expanding rapidly, and large apartment housing projects often do not have access to traditional neighborhood stores. Builders or owners of these large apartment complexes frequently include and operate supermarkets. In addition, large retail shopping centers are popular because they offer a full range of upscale consumer products, and they usually include large supermarkets.

Hong Kong

Supermarket retailing is well established and fairly concentrated by two dominant firms. As of early 1988, the Park'n Shop and Wellcome chains had about 125 and 132 outlets, respectively. Their expansion is continuing, having added 15 and 20 stores, respectively in 1987. However, the recent entry of convenience store chains and other supermarket retailers appear to be increasing competition. There is also competition from the traditional neighborhood store and wet market system. The former as a retailer of branded and other foods appear to be receding in the wake of supermarket and convenience chain store expansion. Wet markets have strong consumer loyalty in fresh meats and fish.

Convenience stores are expanding quickly in Hong Kong. The 7-11 chain entered in 1981 and by early 1988 had about 200 outlets. The chain plans to reach 500 at an expansion rate of 4 stores per month. In 1985, Circle K convenience stores entered the Hong Kong market and had about 25 outlets by the end of 1986.

Since the mid-1980's, supermarket entry is occurring by both local and mainland Chinese groups, as well as by Japanese chain stores. Beginning in 1985, the Dah Chong Hong company and the China Resources Group opened up grocery stores, having about 19 and 14 outlets, respectively, by the end of 1986. By the end of 1987, Yaohan had three supermarkets and Daimaru, Jusco, and six other Japanese retailers each had at least one large general merchandise and supermarket outlet in Hong Kong [19].

Hong Kong has long been an attractive market for HVP exporters because of its relatively open market status, high income, and substantial movement of foreign travelers. Many U.S. exporters and sales agents have pointed out that the relative concentration of supermarket retailing during the early 1980's often made it difficult to obtain shelf space or resulted in high slotting fees. The recent entry by new firms is believed to be opening up more options for HVP exporters.

Singapore

Free-trade policies and a willingness of supermarket retailers to carry a wide range of competing brands contribute to making Singapore a receptive market for exporters. There are more than 50 supermarkets, with about 33 stores operated by the National Trade Union Council (NTUC), a semigovernmental agency. NTUC Fairprice supermarkets are committed to offering a wide range of competitively priced foods. Although these stores do not have as much readily available space for conducting point-of-sale promotions as do the upscale stores in the commercial center of Singapore, they are an accessible outlet for exporters.

The next largest supermarket retailer is the Cold Storage chain, with nine outlets, and second is the Japanese-owned Yaohan, with five outlets. Cold Storage recently acquired a supermarket, called Jasons, that specializes in offering upmarket and gourmet products. Jasons is especially receptive to new products and brands of high-quality products [20].

Traditional retailing by outdoor markets and neighborhood stores is substantial in Singapore. The most serious competitive challenge they face is from convenience chain stores such as 7-11 and the Econ Mini-Mart. Away-from-home food and drink consumption is an important market because of Singapore's intensive urban environment. Vending machines are available, but their dissemination is limited by the prevalence of "street-hawking," a form of retailing that is ideally suited to the climate and relatively low in labor cost.

Malaysia

More than 200 supermarkets operate in Malaysia and they handle about 5-10 percent of the country's retail food sales. Supermarket retailing expanded during the 1970's with opportunities of serving the relatively large community of expatriates and westerners working in Malaysia. The largest is the Cold Storage chain that operates in other ASEAN countries but uses the name Jaya in Malaysia. These stores generally carry many branded HVP imports. Initially, they did not attempt to effectively compete with wet markets in fresh produce and meats. The pace of supermarket expansion slowed during the mid-1980's, with some firms either going out of business or having to close some stores.

Japanese supermarkets entered the Malaysian market during the 1980's and have introduced some competitive innovations. From

the start, Japanese supermarkets offered a full range of fresh products. They are successfully competing with wet markets and are adding new stores every year. The Malaysian-operated supermarkets have responded by developing their fresh produce and meats sections [21].

Some managers of Malaysian supermarkets are receiving technical advice from large foreign concerns. USDA/OICD has been supporting industry training and contact facilitation for Malaysian grocery store managers. In addition to improved technical efficiency, some believe that American styles of food retailing, such as letting consumers choose among loose display items, are preferred by Malaysians to the neatly arranged on site packaging that some of the Japanese retailers provide.

Many convenience stores have done well in Malaysia, offering 24-hour service and functioning as neighborhood gathering places. Convenience chains are led by 7-11, but local varieties exist, such as One-Plus and Majik Market [22].

Taiwan

Supermarket retailing has lagged relative to other industrialized countries. There were about 20 supermarkets as of 1987, mostly in Taipei, and they account for about 5 percent of the nation's retail food sales. This lag is attributed to several factors. First, consumers are attached to traditional wet market retailing, despite government warnings that many of these shopping outlets are unsanitary. Nevertheless consumers often believe that supermarket foods cannot be as fresh as the products of small venders. Second, supermarkets were initially established by large department stores, who view food retailing as a secondary line of business. Supermarkets are normally in the basement of department stores and are not provided adequate facilities and trained personnel. A third factor has been the role of government in providing commissaries for use by civil servants, military, and veterans [23].

Taiwan appears to be on the brink of a rapid increase in supermarket retailing. In 1985, two strictly supermarket outlets were opened by the Japanese firm YAC'S (short for Young and Clean). They are planning to add five new stores, and other Japanese food retailers such as Yaohan are planning to open supermarkets by 1990. In addition, the Wellcome chain from Hong Kong has negotiated a joint venture with a Taiwanese company for establishing supermarkets [24].

Convenience stores are experiencing a rapid expansion that parallels that of fast food franchises. By September 1988 the 7-11 chain had about 200 outlets, adding almost 100 of these in one year [25]. In addition, the 7-11 franchise is operated by President Enterprises, a large food processor and importer of HVPs that appears committed to the grocery dimension of convenience stores. Competitors, such as the AM/PM chain, are also emerging in this sector.

Thailand

Most discussions of Thailand are centered on its agricultural and food processing potential that is attracting foreign investment and joint ventures. However, its recent spurt in economic growth is leading to an expansion of supermarket retailing. One manager estimated that supermarkets account for about 5 percent of retail food sales in Bangkok. By the end of 1986, there was only one supermarket chain, Foodland, with four outlets. There were reported to be about three Japanese grocery stores and one independent supermarket that has mostly been serving the expatriate community for about 15 years. This estimate excludes some of the food sections in department stores that do not offer a comprehensive range of products. The outlook appears to be changing, with Foodland and several Japanese retailers planning to open more supermarkets.

Apart from the entrenched position of traditional distribution, Thailand's restrictive policies on imports of many food HVPs have constrained the growth of supermarkets. These policies directly constrain supermarket growth by limiting the volume and variety of products, and indirectly create a large competitor in the form of smuggled products from Malaysia and Singapore.

V. BRAND NAME HVPs

Establishing a brand name for an agricultural product creates differentiation and, thus, facilitates effective advertising and promotion.

The extension of brands to perishable products is an indication of its benefits to a marketing strategy. However, gains from branded marketing depend on the ability to maintain quality and freshness, which can often be more costly for perishable foods in contrast to nonperishable or processed foods.

A brand name is generally a more critical factor in consumer decisions for processed than for unprocessed foods. Consumers can usually scrutinize unprocessed products for freshness and quality more easily than processed foods, and the perishable condition of the former makes such scrutiny more necessary. Consumers are able to rely on past experience and reputation when a product has brand identity. These factors can be reinforced by advertising to establish brand identity.

The costs of advertising a brand have been analyzed as being subject to significant economies of size and, as a consequence, create entry constraints to some markets for small firms in the processed food industry [26]. In contrast, growers and packers can export and penetrate most markets for perishable products without incurring the cost of establishing a brand and promoting it. Despite such additional cost, many cooperatives have successfully established well-known brands in both perishable and processed food industries.

Cooperatives have major brands in such fruit juices as Welch's, Ocean Spray, Sunkist, and Tree Top. In the case of Sunkist, its brand name gained worldwide recognition through its marketing of fresh oranges, and its brand identity for juice in many foreign markets has developed on this foundation. In the HVP category of tree nuts and dried fruits, Blue Diamond and Sun-Diamond cooperatives have leading brands. Tri/Valley cooperative achieved significant brand presence for its canned fruits in the Asian Pacific markets when it acquired S&W, and it has extended its packing under this brand for fruit juices, tree nuts, and dried fruits. Several other cooperatives have brands for the above product categories and for many other types of HVPs [27].

Tree nuts and dried fruits are an important class of products where perishability is not as critical as it is for many foods. For these products, major markets exist for bulk sales to food manufacturers, where marketing with a brand is less critical than for sales to consumer retailing outlets. For example, a much higher proportion of almonds are exported in bulk than in branded consumer packs in comparison to the domestic market.

The predominance of traditional retailing in Asian Pacific markets constrains branded product retailing to some extent. A continued expansion in the numbers of supermarkets may not only increase the volume of U.S. exports of HVPs, but may also create more opportunities for branded versus bulk sales.

Larger proportions of bulk sales might also result from the relative unfamiliarity by the general population to many HVPs from America. Market development efforts often begin with teaching a local prepared food industry, such as bakeries, how to use a given commodity as an ingredient [28]. This approach has been widely used in the Asian Pacific for tree nuts and dried fruits. As consumers become more familiar with these ingredients in purchased baked goods, opportunities expand for branded product sales in consumer retail outlets.

Many cooperatives, particularly those involved with canning and bottling of fruits and juices, do a substantial amount of co-packing or contract packing for brands of other companies. Cooperatives generally prefer selling processed foods under their own brands. However, it is often inefficient to either sell their total membership volume under a co-op brand or to maintain brand penetration of markets when substantial procurement of nonmember volume would be required. In contrast, some noncooperative firms tend to procure only commodities that will be sold under their brand name.

For products such as juices, it is often more economical to ship bulk concentrates than packaged products. In addition, protectionist trade policies have tended to be more restrictive of branded imports than of bulk products. Although these constraints on brand presence in foreign markets can be offset by the use of overseas packing or licensing agreements, such strategies do not always include products that are 100- percent United States in origin.

Supermarket surveys of fruit juices, almonds, and dried fruits were conducted in eight Asian Pacific countries. A total of 22

supermarkets were surveyed in the capital cities of these countries. The number of competing brands are listed and the average prices are reported in tables 6-9. Surveying was limited in a couple of the visited countries, and data are omitted in a few cases.

Fruit Juices

U.S. export volume of fruit juices to Japan and the four NICs increased by 53 percent from fiscal year 1987 to 1988. Importers and supermarket managers expect continued increase because of a growing concern for the healthiness of foods. Particularly in more affluent countries, demand is increasing for 100-percent-juice content drinks [29].

Orange and apple juices are the leading varieties. Tropical juices, such as mango, guava, and lychee, are readily available but are reported to have a much smaller share of the packaged juice market throughout the Asian Pacific. Consumption of fresh tropical fruits is significant in ASEAN countries, which influences consumers to prefer orange and apple for juice consumption.

There is more competition by brands in Singapore and Malaysia than in the other Asian Pacific countries surveyed (table 6). Both countries show a far higher number of orange and apple juice brands. The comparative lack of grape juice brands results from the popularity of black currant juice in these two countries, which is regarded as a close substitute.

Some brands are applied to more than two types of fruit juices, and the incidence of multiple juice brands is reported in table 7. Twenty-five brands of juices were observed in surveying four supermarkets and two department stores in Tokyo, which was the second highest. However, the other countries are much smaller in population and income and had fewer stores surveyed. Although many brands in Japan are produced by small, local companies, that number may decline if trade liberalization brings increased entry of major foreign brands. In addition, a couple of local brands of apple and grape juice had their contents labeled in Japanese and may have been low-juice-percent drinks.

Japanese juice brands, while being comparatively numerous, were relatively small in number at any one store. In Tokyo and Taipei, three brands of orange juice were the most observed in any one supermarket, while one store in Singapore offered 13 brands (see even-numbered columns in table 6). The relative lack of competing brands in any one store reflects the highly channeled distribution system in Japan, as discussed in section IV.

Retail prices of juices are difficult to compare and to aggregate into meaningful averages because of the many different fruit types, content percentages, and packaging sizes and forms.

Table 6—Presence of juice brands for selected fruits in Asian Pacific markets, 1987

Country	Orange		Apple		Grape	
	Number of brands	Most brands at a store	Number of brands	Most brands at a store	Number of brands	Most brands at a store
Singapore	19	13	17	12	4	2
Malaysia	13	9	19	13	8	5
Philippines	4	4	3	3	6	6
Taiwan	3	3	12	7	8	4
Korea	6	6	6	6	6	4
Japan	8	3	18	7	12	4

Table 7—Total number of juice brands and multiple-flavor-available brands in Asian Pacific markets, 1987

Country	Total number of juice brands	Number of brands with more than two flavors
Singapore	28	14
Malaysia	23	12
Philippines	14	1
Taiwan	19	2
Korea	10	4
Japan	25	4

Table 8 - Average retail nut prices in Asian Pacific supermarkets, 1987

Country	Almond	Peanut	Walnu	Mixed	Pistachio	Cashew
	(US$ per 100 grams)					
Singapore	1.00	0.73	1.02	1.17	1.57	1.58
Malaysia	1.68	0.70	1.06	1.43	1.85	1.88
Thailand	1.32	0.39	.71	NA	2.80	1.23
Philippines	1.36	0.53	1.27	1.27	NA	2.24
Taiwan	1.05	—	—	—	—	—
Korea	1.84	—	—	—	—	—

NA = not available.

These kinds of differences also occur between countries. Nevertheless, a comparison made from observations in early 1987 shows that the number of brands and prices, although taken from a small sample, were inversely related. An average retail price for fruit juice in Singapore was U.S. $1.07 per liter, and was much higher at $2.56 in Korea and $2.33 per liter in Japan. Malaysia was also relatively low at $1.75 per liter.

Qualitative differences in the percentage of fruit juice content were not a factor because more 100-percent-juice-content brands were represented in the Singapore average than in the comparable average price for other countries. Percent juice content was lowest in products observed in the Philippines, and its average price was relatively low at $1.20 per liter. The effect of brand competition on prices seems significant in the case of Singapore, with a lower average price but a higher per capita income than in the Philippines.

Almonds

California is the world leader in almond production and exports, accounting for about 70 percent in normal production seasons and more than 80 percent of world trade in recent years. Export performance in this HVP is particularly significant in view of exports being substantially larger than domestic consumption. Almonds are an example of one HVP where a cooperative, Blue Diamond Growers, has been the predominant developer of markets throughout the world.

The Blue Diamond brand is generally regarded as the market leader by supermarket managers in most of the Asian Pacific countries. The cooperative is also a major supplier of almonds to packers of other brands. Snack almonds may still be in an early stage of development because retail sales in Asian Pacific countries are small compared to bulk sales to bakery and confectionery manufacturers.

The constraints to expanding the branded snack market for almonds are in part due to this nut's much higher price compared to peanuts and to the price competition from other kinds of nuts that are being marketed in the Asian Pacific. Table 8 reports the average retail price of almonds and other nuts from the supermarket survey.

Rising incomes in the Asian Pacific may gradually shift a larger share of consumption into the branded snack market. There is evidence of this shift with the substantial presence of almond brands in Singapore, Malaysia, and Taiwan. Several brands of nuts also can effectively add almonds as another product line (see table 9).

Dried Fruit

World trade in raisins is subject to more competition by brands and from other exporting nations than many other California specialty crops. The United States normally accounts for 25-35 percent of world trade in raisins. Most of the competing nations, such as Turkey, Greece, and Australia, produce sultanas.

Promotion programs by the California Raisin Advisory Board (CALRAB) have focused on differentiating the California raisin from sultanas. They work closely with bulk raisin exporters and foreign brand packers to apply the CALRAB logo and "California Raisins" label to these consumer- packaged products.

Sun-Maid Growers, a member of Sun-Diamond Growers, has historically been a market leader with its name brand, Sun-Maid. While Sun-Diamond is involved with bulk shipping to food manufacturers, it generally does not pack for other brands. More than most cooperatives, it is committed to a brand marketing program. Sun-Maid raisins were observed in five of the countries visited, more than any other brand.

Interbrand raisin and sultana competition is

Table 9—Comparison of available almond brands and with all nut brands in Asian Pacific supermarkets, 1987

Country	Almond brands	Most brands at a store	Total nut brands
Singapore	5	4	8
Malaysia	5	5	12
Thailand	4	4	8
Philippines	2	2	5
Taiwan	5	4	9
Korea	1	1	6
Japan	4	2	4
Total 1	17		41

1/ This total is of distinctive brands and is not the column total.

more in evidence in some Asian Pacific supermarkets than in the United States. Table 10 reports from the survey that more brands were observed in the Philippines, Taiwan, and Korea than in the other five countries surveyed. Taiwan and Korea were countries that had recently received substantial CALRAB promotion in response to earlier inroads by foreign raisins and their brands. California raisins were being offered in both U.S. and local repack brands. They were reported to be recapturing market share from sultanas, which were also widely available in different brands. Twenty-six out of the 37 observed brands of raisins were labeled as containing California raisins.

Prunes are another Sun-Diamond product that is supplied by its member association, Sunsweet Growers. The S&W brand of Tri/Valley Growers was also offering prunes in several of the Asian Pacific countries. The market for prunes is smaller than for raisins, and fewer brands are available in supermarkets. Nevertheless, cooperative and other California brands predominate under 11 different names; only one foreign brand was observed in the survey.

Access to Supermarkets

A major challenge in trying to expand sales in any market is the acceptance of a product by supermarkets. Securing retail shelf space in many Asian Pacific countries can be particularly difficult because supermarkets are still in a growth phase and HVP exporters from around the world are concentrating their efforts on this economically fast growing region. Slotting allowances are often charged by supermarkets for carrying new brands. As in the United States, supermarkets justify these charges as compensation for their costs in the event a brand fails to have adequate turnover. The precommitment of these fees suggests that they also function as a screening device to deter suppliers who will not aggressively promote and maintain stocks of their products.

Table 10—Presence of dried fruit brands in Asian Pacific markets, 1987

	Raisins		Prunes	
	Number of brands	Most brands at a store	Number of brands	Most brands at a store
Singapore	4	2	3	3
Malaysia	5	3	4	2
Thailand	5	5	4	4
Philippines	7	7	—	—
Hong Kong	3	3	—	—
Taiwan	9	6	6	4
Korea	10	5	1	1
Japan	6	4	4	2
Total 1/	37	12		

1/ This total is for distinctive brands and is not the column total.

Slotting allowances tend to be applied on a case-by-case basis both in the United States and in at least some Asian Pacific countries [30]. Supermarket managers in Singapore and elsewhere said that they do not charge slotting allowances when a product is highly differentiated and has significant potential. A supplier or its agent can often gain access to shelf space or eliminate slotting fees for its products by offering a program of advertising and promotion.

Large multinational food manufacturers having well-known brands that cover a wide range of consumer products have several advantages in gaining access to supermarket shelf space. They have a reputation for success and significant economies of size to carry out intensive brand advertising. Multinational food processors may also have advantages in providing ancillary services to supermarkets, such as timely restocking and other marketing services that help them achieve their objectives. Many of them have subsidiaries in the Asian Pacific, and in most countries they establish their own sales offices.

Exporters of HVPs can provide equally effective services to supermarkets through their agents. However, the performance of this form of distribution often varies widely. The supermarket surveys often revealed inadequate restocking of American HVPs that stores were committed to carrying. Such marketing weaknesses are less apt to occur to multiproduct food firms that have sales offices in the foreign country.

Some of the Asian Pacific supermarket chains have sought to improve their retail performance by expanding their involvement as direct importers. Many of them offer a form of agent services to exporters that has the obvious disadvantage of having distribution primarily, if

not exclusively, limited to their outlets. Another emerging trend in supermarket procurement techniques is to seek trade partnerships with large supermarket chains in the United States or in Western Europe. These relationships would enable a relatively small chain in an Asian Pacific country to gain economies in procurement of comprehensive product lines — the procurement version of "one-stop-shop."

A potential strategy for exporters of single- or narrow-product lines is to coordinate their efforts in a family-of-products marketing. A description and evaluation of this approach for use by cooperative exporters of branded HVPs was developed in earlier ACS-supported research on Pacific Rim markets [31]. Its strategic objective is to gain some of the advertising economies and wider product coverage for supplying supermarkets that large multiproduct firms accomplish.

A family-of-products approach involves joint marketing, but its distinctive idea is to combine complementary products of different cooperatives or firms under a single brand name. A brand could be newly developed or adopted from one of the leading cooperative exporters [32]. There are some serious drawbacks to the brand sharing part of family-of-products marketing. Even if protected by licensing agreements, brand sharing is preferred less by most cooperatives than concentrating their resources on their own brands.

Improving promotion and services to supermarkets can be accomplished by working more effectively with foreign sales agents. Furthermore, other mechanisms for coordinating HVP export marketing have developed in recent years. For example, the Targeted Export Assistance program, expansion of commodity and state government trade offices, and the formation of regional trade associations have improved access to supermarkets for U.S. exporters [33].

VI. SALES AGENTS

Sales agents or distributors in the Asian Pacific markets assume an important role for many U.S. exporters of nonperishable products. Import distributors often function as agents for exporters of these kinds of products, providing them with marketing services in addition to importing their products. Although this type of informal partnership is feasible for most products, importers of fresh fruits, vegetables, and especially meats often prefer to procure commodities in "arms-length" transactions. In contrast, importers of nonperishable, branded products will often offer agent services such as maintaining inventories and distributing to types of outlets that exporters may prefer. The following discussion is primarily relevant for processed products, although some aspects also apply to importers of perishable HVPs.

Foreign sales agents for HVPs usually do not work on commission but directly buy products from export suppliers. They resell branded HVPs to supermarkets and convenience stores, and bulk HVPs to hotels, restaurants, and industrial food processors. This type of arrangement differs from typical buy-sell transactions in that an exporter will deal exclusively with an agent, and the latter will usually agree to not represent directly competing products. Bulk market distribution, particularly to large industrial users, is sometimes directly transacted by the exporter without agent intermediation.

Some exporters of HVPs establish foreign brokers for their agents. This type of arrangement is generally more complicated because sales transactions have to be made by the exporter with several different buyers. However, an agent who functions as a broker provides the exporter with more control over pricing decisions. In addition, a commission form of compensation can offer more effective performance incentives than exists in buy-sell arrangements with a sales representative.

Agents are a pivotal link in effective marketing of brand name HVPs to Asian Pacific consumers. In addition to distributing products, many agents actively promote them. Promotion and consistent restocking of store supplies are particularly critical services for branded products. An agent can also monitor emerging consumer trends in foreign markets that can be difficult for a U.S. exporter to identify or anticipate.

The performance of sales agents is particularly important for cooperative exporters, who are generally committed to handling member production from the United States. A few cooperatives have been able to establish their own

sales staffs in large markets, such as Japan, but generally this approach is infeasible. Most cooperatives rely on a foreign sales agent system, and their export success depends on its efficient functioning.

Trade Protectionism Constraints

The importing services industry is affected by most of the regulations that countries impose on the inflow of foreign products. Highly-trade-protectionist countries will tend to have a smaller and less competitive market for agent services in relation to other countries of comparable per capita income. Research across countries would be required to test this kind of impact, but exporters should be aware of how differences in trade policies of nations may affect performance when evaluating and comparing agents.

Some forms of protectionism have observable impacts on the structure of an importing industry. When countries have quotas or restrictive issuing of import licenses, exporters should anticipate the possibility of oligopsony. For example, Japan's quota on juice concentrate imports were filled by an exclusive granting of rights to only three importing firms [34]. The lifting of these quotas will not only remove a direct barrier to larger exports from the United States, but it will also allow more Japanese firms to compete for imports and to offer agent services to exporters.

Trade protectionism does not appear to have limited the capability of Japan's distribution industry to serve an expansion of imports. Although its system is widely criticized for its lack of horizontal or nationwide distribution, there are numerous but small wholesale distributors. In 1985, wholesale distributors with fewer than 10 employees were reported to account for 75.9 percent of total sales in an industry with 413,000 firms. [35] Gradual progress toward trade and distribution system reform will probably reduce this large pool of wholesalers, but many could become a part of a large and highly competitive import agent industry.

South Korea contrasts with Japan in being a country where trade protection has stifled the growth of a distribution system for imports. Its major food wholesale system is managed by the National Agricultural Cooperative Federation for exclusive distribution of South Korea's farm products. Korea's food processors are export oriented and internally manage domestic distribution, with limited outside contracting for special services [36].

Import agents are available in Korea, but most of them have not had opportunities to develop a continuous system of procurement and distribution for any individual U.S. brand. They are adept at handling discontinuous transactions for a wide range of products, but are inexperienced in promotion and market development [37]. As a consequence, many exporters to Korea prefer establishing partnerships with large food processors to using import agents. Another factor is that import licenses are issued in proportion to Korea's volume of exports. These large companies are exporters of Korean-made products so they directly earn these import licenses.

Regulation of Agent Agreements

Countries often regulate arrangements that exporters establish with sales agents or distributors. The major concern of most regulations is with grounds and requirements for termination of agreements. Generally, regulations apply only to agents who work on commission and derive a significant share of their income from a particular exporter. Some attorneys caution against using the term "agent" rather than "distributor," but this advice differs by country. [38] In general, the less economic dependence that an agent or distributor has upon the business generated by an exporter's products, the less likely that termination regulations would apply.

Indonesia regulates agency agreements more completely than any of the other major capitalist economies in the Asian Pacific. Agreements must hold for at least 3 years, and specific provisions must be specified under which an agreement may be canceled. Compensation to a terminated agent may also be imposed as a condition for doing future business in Indonesia [39].

The Asian Pacific countries covered in this report do not have special regulations regarding agent termination, but terminating such agreements could be subject to litigation under other commercial laws. In addition, other dimensions of agent operations are regulated in various ways

in different countries. For example, in 1983, Malaysia passed a law requiring import businesses to be owned and controlled by local nationals [40].

U.S. exporters are advised to draft agent agreements with specific expiration dates and specify duration with each renewal of a contract. There have been situations where foreign courts or regulators interpret an agreement of relatively long standing as establishing a permanent or so-called "ever-green contract." Such interpretations may subject exporters to substantial compensation payments when terminating an agent agreement [41].

One expert advises exporters to draft agreements for as short a time period as allowed or as would be practical. This approach facilitates termination if necessary and fosters better performance on the part of agents [42]. However, written agreements cannot cover all performance dimensions, nor will they guarantee a satisfactory and effective relationship between exporters and sales agents. Mutual commitment has to be developed through positive incentives.

Incentive Structure

Foreign sales agents are individual entrepreneurs who operate their own import businesses. Exporters have slight, if any, control over agents, which is in contrast to their managerial relationship when employing their own sales staff. Exporters and agents have little at stake if no sales are made, whereas substantial financial commitments and sales performance requirements are usually involved when sales offices are established. In addition, the practice of having foreign agents represent and distribute HVPs on a noncommission basis, in contrast to many domestic sales agent arrangements, can create weaker incentives in some cases.

A major weakness in the agent system of exporting occurs from the lack of exclusive commitment to one exporter. Many agents actively seek to represent more exporters so they can move more products through their established channels of distribution. This strategy can achieve economies that benefit all exporters in a given agent's system. However, it may also diminish an agent's efforts to promote a particular exporter's brands or to develop access to more retail outlets.

Monitoring foreign agent performance, as opposed to that of domestic distributors, is more difficult. There is not only more infrequency of contacts, but an unfamiliarity with the language, culture, and markets makes it harder to separate the effects of the economy from the efforts of an agent on sales. This weakness, in turn, prevents many types of financial incentives from being offered to agents.

Concerns of Agents

Commitment is a two-way street. Many exporters do not regularly communicate with or respond to concerns of their agents. They may view a given export market as worth limited attention if it accounts for a small share of their sales, rather than viewing foreign markets as having special circumstances that require more attention in order to unleash their potential. There are at least two trade practices that can work against development of an effective working relationship with agents.

(1) Direct Imports

Agent relationships can become strained when exporters exclude them from sales they directly transact with retailers. Although exporters may want alternative channels for moving their products, they should pursue or permit these sales with awareness of possible negative impacts on their agents. Often U.S. exporters are involved with trade association missions and promotion campaigns that can produce sales opportunities. An agent may want involvement with these avenues for generating trade contacts.

Supermarket chains and other large buyers often seek to import direct for the purpose of obtaining discounts that would normally comprise an agent's margin. In these situations, exporters are confronted with staying committed to their agent relationship or running the risk of diminishing its effectiveness or having to terminate it. It can be maintained, even when directly selling to a particular supermarket, by means of compensation built into the other sales that an agent generates.

(2) Parallel Imports

Another type of trade practice that weakens incentives is "parallel imports" — sales of U.S.

suppliers' products in foreign markets without their involvement. These usually occur only for major U.S. brands. Parallel imports create intrabrand competition, in contrast to interbrand competition which was discussed in Section V. Exporters may welcome alternative sales channels for their branded products, except to the extent that they complicate product promotion and adversely affect the commitment of their agents.

Some agents believe that the problem of parallel imports can be addressed as a component of a broader marketing strategy of customizing products and their packaging for the preferences of their local consumers. For some products this type of strategy permits an export supplier to gain an advantage over competing exporters. From an agent's standpoint, such a strategy would tend to diminish parallel imports and, therefore, increase its commitment to marketing and promoting these products. Parallel imports could also be stemmed if exporters offered the same discounts to small but promising foreign markets as to high-volume domestic brokers.

Trade protectionism diminishes trade, but some of its methods serve to keep out parallel imports. These situations are usually out of the exporters' control, but consideration of them increases understanding of an agent's point of view. For example, quotas that are allocated to import agents for the branded products they represent prevent occasional importers from taking advantage of isolated opportunities to procure these same brands from other trade channels. In fact, it has been pointed out that parallel imports will increase as Japan makes further steps to liberalize its import restrictions [43].

Product labeling regulations also diminish parallel imports, even though such laws are ostensibly passed for consumer welfare purposes. Thailand and Taiwan have regulations that require that a description of the product's contents be printed in their language. Most exporters comply with this type of regulation by having their foreign sales agents apply stick-on paper labels prior to shipment to retailers. Parallel imports are often made by firms that do not regularly handle those brands and are unprepared to do special labeling. Regulations of this kind can unintentionally help agents maintain exclusive distribution rights.

Improving Agent Relationships

Exporters often evaluate the advantages of trying to improve working relationships with agents in comparison to alternative methods of export marketing. For example, HVP processors can avoid the costs of direct exporting by using the services of a domestically based export management company. They can also further their involvement with foreign marketing by establishing their own sales offices or set up marketing or co-packing joint ventures with foreign food processors. Another alternative trade channel for HVPs is direct importing by large overseas supermarket chains, including export-import trade between retailers.

Efforts to improve the agent method of direct exporting would not be the best long-term strategy if economic conditions were beginning to make other methods of exporting more efficient. Agent representation is still a widely used form of direct exporting by firms and cooperatives that exclusively export U.S. products. It is particularly important to cooperatives because their specialization in member products often does not involve enough diversified product lines to support overseas sales offices. A few strategies for improving foreign sales agent performance are described below.

Recruitment

Finding an importer that will offer the type of agent services and commitment that an exporter wants is one of the most critical steps in exporting. Exporters often locate agents through informal channels, such as trade shows, or by referral from foreign customers or business contacts. In addition,many importers stay informed about U.S. products and actively seek agent status with producers who export. These informal sources of information are a helpful way to identify prospective agents, particularly when they take the initiative to visit a U.S. exporter. Even with this kind of assistance, it is advisable for exporters to take their own initiatives in finding the right agent for their products.

Foreign travel is essential to finding the best agent available. Agricultural attaches maintain a list of importers who offer agent services. An exporter should also supplement this list by

visiting local food retailers, and other business contacts. Most lists are unlikely to include all available importers because entry barriers are low for nonperishable branded foods and many new firms might be capable of offering excellent agent services.

Exporters should do independent checking on importers' reputations. They should also have some familiarity with the other products that an agent represents and how these are marketed. It can also be useful to know if agents or their firms are associated with a certain quality of products. In some countries a U.S.-branded HVP might carry slight, if any, recognition by consumers. Some importer reputations might be better than others for building a particular quality image.

Generating Information

A major purpose for firms to establish overseas processing is to obtain better market and consumer information. According to a recent study by the Economic Research Service, many managers of large U.S. food firms ranked marketing information higher than tariff rates and cheaper labor cost as reasons for overseas processing [44]. Although an exclusive exporter of U.S.-processed HVPs may not be able to replicate with agents the information access that transnational firms have, systematic collection of market and consumer behavior data is feasible.

Some agents transmit market information to their exporter clients, but their collection and communications of data are usually informal and relatively slight. Many agents in Asian Pacific countries have less experience with collecting and interpreting market information than the foreign food processors they represent. In addition, exporters may each have distinctive sets of information that they regard as important and their preferences would have to be clearly explained to agents.

Sources of marketing information about Asian Pacific countries have expanded recently because of the greater involvement of trade associations and both Federal and State government trade offices in these markets. To some extent, these institutional and coordinated efforts address the weaknesses in marketing information and analysis by foreign sales agents. However, association and government sources cannot replicate the kinds of information that commercial entities can generate from involvement in market transactions. For example, agents often conduct price discount promotions, but accurate measurement of their impact on sales is often not collected and analyzed. Even when agents are supporting such promotions out of their own gross margins, they could use the help of their export clients in setting up appropriate data bases and analytical techniques.

Test marketing of various differentiation techniques and analysis of sales results is one of the key advantages that multinationals, through their foreign subsidiaries, have over exclusive U.S. origin exporters. Although a subsidiary is more committed and has more resources to conduct marketing analysis, there is potential for agents to provide more than they do if exporters make an effort to work with them.

Some agents believe that export clients often do not seek their further involvement with informational dimensions of marketing. Many have suggested new approaches to marketing or adaptations in packaging and labeling, but exporters are usually unwilling to make changes. U.S. exporters view most Asian Pacific markets, with the exception of Japan, as too small in relation to their domestic market to make modifications of products economical.

One example of how marketing information feedback from agents can lead to successful products involves Welch Foods. It has for many years supplied its Hong Kong agent with a unique formulation of its Welchade drink. This product is not only better adapted to local tastes, but Welch's agent is also more committed to promoting and marketing this product than others that enter Hong Kong through parallel import channels [45].

There are risks in trying to more fully utilize agents as a source of marketing information. For example, product differentiation strategies can yield higher per unit margins with a reduction in sales volume. Exporters and agents can have a divergence of interests between emphasizing higher margins or sales volume. Divergences of this kind should be anticipated when relying on agents for an extensive system of marketing analysis.

Exporters also do not want to carry differentiation strategies to a point where they primarily

serve to diminish competitive pressures on agent performance. In general, agents are reliable to identify when it is advantageous for exporters to differentiate products as "imports" for some market niches. They often point out that imitating the leading product in a market is not always the most efficient strategy for an exporter.

Agent-in-Common

A major weakness of the incentive structure between exporters and their agents is the lack of exclusive representation. Many individual exporters do not have adequate volume to support an agent, and most agents do not seek single-client representation. Incentives could be strengthened if a group of cooperatives established an agent-in-common.

A potential draw back for this type of strategy is that exclusive agent arrangements may in some countries establish more complicated procedures for termination of an agreement. Termination laws of some countries may constrain development of more exclusive arrangements between an exporter and agent, and may also account for the growth in licensing and other strategies for improving distribution performance.

Coordination strategies can become complicated for some cooperatives who have developed distinctive business strategies in response to unique requirements of specific products and to member direction. However, opportunities for cooperative coordination in establishing an agent-in-common have the potential to improve marketing. ACS examines intercooperative coordination alternatives because individual associations are more inclined to consider single organization strategies than coordinated forms of marketing.

Many importers would not be receptive to agent agreements that limit their opportunities to expand profits by adding more export clients. However, agents are often exposed to unexpected losses of highly valued client accounts. This may result from the difficulties of working with diverse exporters from different countries. There are likely to be high-quality agents who would be willing to commit their undivided effort because of the large sales potential a group of cooperatives could represent.

A coordinated effort by cooperatives could secure the best agents available [46]. Even though many cooperatives are satisfied with their foreign distributors, it is likely that one or two among any group would have particularly outstanding representation in different markets. The selection process for an agent-in-common would make it possible for each cooperative to improve its international agent network.

A cooperative with an especially capable agent in a given market would be able to strengthen working relationships if a single agent-in-common agreement were to replace the set of separate agreements with exporters unknown to one another. A group of cooperatives would enable an agent to provide a highly focused and consistent set of marketing services that are too difficult to obtain in the fragmented set of relationships that often exist between exporters and importers.

Ability to monitor an agent's performance would significantly improve. Cooperative exporters would be able to coordinate their visits with an agent-in-common and to compare notes on how this system is functioning and on ways to improve it.

The possible combinations of cooperatives for a single-agent agreement could create effective family-of-products marketing, but without requiring that a single brand be adopted. Opportunities might arise where coordinated promotion around a group of products would be more advantageous than promoting just one product.

Opportunities for improved services to supermarkets, as discussed in sections IV and V, would be facilitated by having an agent-in-common. It would also be more feasible to establish a marketing information system with an agent-in-common than in the current form of separate agreements with multiple export clients.

CONCLUSION

This report examines some of the issues involved with exporting nonperishable HVPs to several of the major Asian Pacific markets. It provides summary background on the general economies and trade policies of these countries. A more specific focus on marketing issues is developed in regard to consumer characteristics

in the region that are relevant to imported HVPs, and on possible directions that processors could take in modifying products. The advantages to exporters of supermarket retailing over traditional Asian Pacific food vending are examined, as well as the recent status of supermarket development. These market conditions have a direct influence on exports, and also an indirect effect in terms of circumscribing the range and intensity of market development and product distribution that sales agents can carry out.

Foreign sales agents have an important role in cooperative efforts to expand HVP exports under their own brand names. Cooperatives generally use, but do not exclusively focus their strategies on, branded marketing programs. They usually have substantial involvement in bulk sales, and for commodities that are primarily processed, they often do custom packing for other brands. The objective of most cooperatives is to improve earnings for their member suppliers both seasonally and over the long term. In the long-term perspective of exporting to Asian Pacific markets, most cooperatives seek to maintain and expand brand penetration.

A key factor in maintaining a strong brand presence in Asian Pacific markets is the quality of the cooperatives' distributors and of the working relationships they can develop with them. This research sought to identify ways in which an agent system of direct exporting can be improved, but it does not compare its performance with alternatives. Many cooperatives are, however, beginning to consider alternatives to agent arrangements. Although not a predominant form of cooperative participation in international business, some cooperatives are establishing overseas subsidiaries and licensing trademarks with foreign food processors. While these forms of operation can overcome limitations in traditional agent or distributor arrangements, they also involve more risks that have to be insured and legally protected. It is, therefore, all the more important to understand possibilities and limitations of improving the agent system of exporting.

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